Report

of the

Examination of

Lindina Town Mutual Insurance Company

Mauston, Wisconsin

As of December 31, 1998

TABLE OF CONTENTS

June 4, 1999

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 1998, of the affairs and financial condition of

LINDINA TOWN MUTUAL INSURANCE COMPANY
Mauston, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1994 as of December 31, 1993. The current examination covered the intervening time period ending December 31, 1998, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on February 1, 1879, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Lindina Town Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Juneau

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the assessment basis. In 1999, the company is switching over to the advance premium basis.

Business of the company is acquired through seven agents, all of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
New or renewal	$35.00 per policy

Agents do not have the authority to adjust losses. All losses are adjusted by the adjusting committee. Adjusters receive $250.00 annually plus $20.00 for each loss adjusted plus $.25/mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. The directors may fill vacancies on the board for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Henry Moore, Jr.	Retired	Mauston	2000
Helen Petrowitz	Town Clerk	Mauston	2000
Harold Seebecker	Farmer	Mauston	2001
Chester Hawkins	Real Estate Broker	New Lisbon	2001
George Cook	Farmer	Mauston	1999
James Kolba	Retired	Mauston	1999
Bernadine Walsh	Bookkeeper	Lyndon Station	1999

Members of the board currently receive $30.00/in town and $60.00/out of town for each meeting attended and $.25/mile for travel expenses. In addition, directors receive $650.00/year and a $100.00 car allowance.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
George Cook	President	$ 3,900
Harold Seebecker	Vice-President	750
Chester Hawkins	Secretary	18,755
Helen Petrowitz	Treasurer	2,381

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
George Cook, Chair
Harold Seebecker
James Kolba
Chester Hawkins (Alternate)

Investment Committee
George Cook, Chair
James Kolba
Helen Petrowitz
Chester Hawkins (Alternate)

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1994	$63,471	$39,940	337	$ (2,050)	$793,426	$760,656
1995	72,351	29,739	331	34,023	824,455	795,544
1996	73,446	23,644	322	40,261	877,561	842,836
1997	70,190	10,128	322	52,249	923,997	892,920
1998	68,510	35,092	311	29,139	966,632	931,063

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios	
				Gross	Net
1994	$ 96,561	$63,471	$760,656	12.7%	8.3%
1995	109,761	72,351	795,544	13.8	9.1
1996	100,933	73,446	842,836	12.0	8.7
1997	100,456	70,190	892,920	11.3	7.9
1998	96,408	68,510	931,063	10.4	7.4

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1994	$39,940	$48,451	$63,471	63%	76%	139%
1995	29,739	45,507	72,351	41	63	104
1996	23,644	47,366	73,446	32	65	97
1997	10,128	48,786	70,190	14	70	84
1998	35,092	49,741	68,510	51	73	124

The company's composite ratio, which is a combination of the loss ratio plus the expense ratio, has been relatively high the last five years due to the high expense ratio the company has incurred. As a result, the company has experienced underwriting losses in three of the last five years. The company has used investment income to offset its underwriting losses to produce a positive net income in the years of net underwriting losses. Thus, surplus has increased each of the last five years to a level of $931,063. Policies in force have decreased each of the last five years; consequently, net premiums written have also decreased slightly over the five-year period. The company's surplus remains strong relative to its net premiums written.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 1999
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing.

1.	Type of contract:	Class A Liability
	Lines reinsured:	All liability (nonproperty) policies
	Company's retention:	Zero
	Coverage:	Reinsurer shall be liable for 100% of each and every loss, including LAE, occurring on the business covered subject to the following maximum policy limits: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability. b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	Company pays to the reinsurer 100% of the premium written for each and every policy issued with respect to the business covered.
	Ceding commission:	15% of premium paid to the reinsurer
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property policies
	Company's retention:	When the company's net retention is $150,000 or more in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to $800,000. When the company's net retention is $150,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to 50% of such risk. In addition, the company shall retain, as an annual aggregate deductible, an amount equal to 10% of the loss and loss adjusting expenses otherwise recoverable under this contract.

	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded.
	Reinsurance premium:	The pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of risk ceded.
	Ceding commission:	15% standard slide with a min/max rate of 15/35%. The current rate is 15%.
3.	Type of contract:	Class C-1 Excess of Loss – First Layer
	Lines reinsured:	All property policies
	Company's retention:	$25,000 per loss plus a $25,000 annual aggregate deductible
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $25,000 in respect to each and every risk resulting from one loss occurrence. The reinsurer's limit of liability shall be $50,000 in respect to each and every loss occurrence.
	Reinsurance premium:	Based on the prior four years' loss experience of the company. Subject to a minimum rate of 7% and a maximum rate of 19% of net written premiums. The current rate the company pays is 7%.
4.	Type of contract:	Class C-2 Excess of Loss – Second Layer
	Lines reinsured:	All property policies
	Company's retention:	$75,000 per loss
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $75,000, up to $75,000, in respect to each and every risk resulting from one loss occurrence.
	Reinsurance premium:	6% of net premium written; minimum premium of $3,840.
5.	Type of contract:	Class D/E Stop Loss
	Lines reinsured:	All property policies
	Company's retention:	100% of the company's net premium written, subject to a minimum net retention of $63,200.
	Coverage:	100% of the amount, if any, by which the aggregate of the company's losses (excluding loss adjustment expenses) which occur during any annual period this contract is in effect exceed an amount equal to 100% of the company's net premiums written.

Reinsurance premium:	Based on the prior eight years' loss experience of the company. Subject to a minimum rate of 10% and a maximum rate of 25% of net premium written. The current rate the company pays is 10%.

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 1998. Adjustments made as results of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus."

Lindina Town Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 1998

Assets	**Ledger**	**Nonledger**	**Not Admitted**	**Net Admitted**
Cash Deposited at Interest	$825,602	$	$	$825,602
Stocks or Mutual Fund Investments (at Market)	110,577			110,577
Investment Income Due or Accrued	0	13,867	0	13,867
Assessments Receivable	6,567			6,567
Reinsurance Recoverable on Paid Losses and LAE	1,197			1,197
Reinsurance Premium Overpayment Receivable	1,392			1,392
Other Assets (Show in Detail)				
1. Refundable unearned premium	4,749			4,749
2. Software	2,681			2,681
Furniture and Fixtures	613		613	0
TOTALS	$953,378	$13,867	$613	$966,632

Liabilities and Surplus

Net Unpaid Losses	$ 8,131
Unpaid Loss Adjustment Expenses	1,000
Payroll Taxes Payable	155
Other Liabilities:	
Expense Related	
a. Accounts Payable	1,816
b. Accrued Salaries	21,467
TOTAL LIABILITIES	35,569
Policyholders' Surplus	931,063
TOTAL	$966,632

Lindina Town Mutual Insurance Company
Statement of Operations
For the Year 1998

Net Premiums and Assessments Earned	$ 68,510
Deduct:	
Net Losses Incurred	26,308
Net Loss Adjustment Expenses Incurred	8,784
Other Underwriting Expenses Incurred	49,741
Total Losses and Expenses Incurred	84,833
Net Underwriting Gain (Loss)	(16,323)
Net Investment Income:	
Net Investment Income Earned	44,971
Total Investment Income	44,971
Other Income:	
Interest on Assessments	491
Net Investment and Other Income	45,462
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	29,139
Net Income (Loss) Before Federal Income Taxes	29,139
Net Income	$ 29,139

Lindina Town Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five Year Period Ending December 31, 1998

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1993		$762,460
1994		
Net income (loss)	$ (2,050)	
Net unrealized capital gains or losses	(250)	
Change in nonadmitted assets	496	
Change in surplus as regards policyholders for the year	(1,804)	
Surplus as regards policyholders, December 31, 1994	**760,656**	
1995		
Net income (loss)	34,023	
Net unrealized capital gains or losses	579	
Change in nonadmitted assets	286	
Change in surplus as regards policyholders for the year	34,888	
Surplus as regards policyholders, December 31, 1995	**795,544**	
1996		
Net income (loss)	40,261	
Net unrealized capital gains or losses	6,245	
Change in nonadmitted assets	786	
Change in surplus as regards policyholders for the year	47,292	
Surplus as regards policyholders, December 31, 1996	**842,836**	
1997		
Net income (loss)	52,249	
Net unrealized capital gains or losses	(1,954)	
Change in nonadmitted assets	(211)	
Change in surplus as regards policyholders for the year	50,084	
Surplus as regards policyholders, December 31, 1997	**892,920**	
1998		
Net income (loss)	29,139	
Net unrealized capital gains or losses	8,035	
Change in nonadmitted assets	969	
Change in surplus as regards policyholders for the year	38,143	
Surplus as regards policyholders, December 31, 1998		$931,063

Reconciliation of Policyholders' Surplus

There were no adjustments to surplus as a result of this examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Reinsurance – It is recommended that the company implement procedures to ensure that all risks in which a single risk per single location is in excess of its treaty coverage ($150,000) are submitted to its reinsurer under their facultative treaty.

   Action—Compliance

2. Corporate Records – It is recommended that proper biographical data be reported for all company officers and directors per s. Ins 6.52, Wis. Adm. Code.

   Action – Compliance

3. Accounts and Records – It is recommended that the company maintain a proper policy register in compliance with s. Ins 13.05 (2) (a), Wis. Adm. Code.

   Action – Partial compliance. This recommendation is repeated in the "Current Examination Results" section of this report.

4. Accounts and Records – It is again recommended that the company maintain a cash receipts journal, general journal, and general ledger as specified in s. Ins 13.05, Wis., Adm. Code.

   Action – Partial compliance. This recommendation is repeated in the "Current Examination Results" section of this report.

5. Accounts and Records – It is recommended that the company improve internal control procedures by segregating cash receipt duties and requiring timely recording of receipts in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

   Action – Partial compliance. This recommendation is repeated in the "Current Examination Results" section of this report.

6. Net Unpaid Losses – It is again recommended that the company maintain a proper loss register as specified in s. Ins 13.05, Wis. Adm. Code.

   Action – Noncompliance. This recommendation is repeated in the "Current Examination Results" section of this report.

7. Net Unpaid Losses – It is again recommended that the company require its claimants to sign a proof of loss when submitting all claims.

   Action – Noncompliance. This recommendation is repeated in the "Current Examination Results" section of this report.

8. Assessments Receivable – It is recommended that the company comply with s. 612.54 (5), Wis. Stat.

   Action – Partial compliance, see comments in the summary of "Current Examinations Results".

9. Other Insurance – It is suggested that the company purchase commercial multi-peril insurance coverage.

   Action - Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

A review of the company's records indicated that the company does not have a business plan. The company should give consideration to developing a comprehensive business plan to help provide assistance as to how it will achieve its goals. The plan should include a discussion of the company's goals and how it will accomplish them. Some areas of discussion may be invested assets, lines of business it operates in, expansion of business, and how it intends to service its customers.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has not executed formal written agreements with its agents. The contracts should include language indicating the agent will represent the company's interests "in good faith." It is recommended that the company execute formal written agreements with its agents.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 50,000
Worker's Compensation	100,000; 500,000; 100,000
Agents Errors & Omissions	1,000,000
Professional Liability	1,000,000
General Liability	2,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. All new and renewal applications are inspected by a director.

During a review of the company's policy files, it was noted that pictures of the insured properties are not taken and kept with the inspection reports. It is suggested that the company adopt procedures for obtaining pictures of all properties inspected.

It was determined that the company does not have any agents listed with the commissioner and that the company writes limited nonproperty (liability) coverage. As such, the individual(s) writing this business must be licensed and listed with the Commissioner, per s. Ins 6.57, Wis. Adm. Code. The agent who writes this business, Chester Hawkins, is licensed but not listed. Therefore, it is recommended that the company list all agents who write nonproperty (liability) business with the Commissioner of Insurance.

The company's historical financial data was reviewed during the examination. This review revealed that the company has incurred underwriting losses in three of the last five years. In an effort to mitigate its underwriting losses, the company should consider performing some detailed loss analysis and a study of its expense structure over an extended time period. Some of the ways the company may consider analyzing its losses are by size of premium, size of policy, type of policy, location, and by agent. This should help the company determine the best methods needed to mitigate its underwriting losses. Currently, the company receives the lowest ceding commission (15%) that the first surplus contract allows, because of the high gross losses the company has incurred over the past five years.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. Two members of the adjusting committee sign off on each loss settlement. Losses are reported and discussed at the monthly board of directors' meeting.

Accounts and Records

The examiners' review of the company's records indicated that the company is not in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is not maintained
2. A proper cash receipts journal is not maintained
3. A proper cash disbursement journal is not maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

The company's policy register does not contain information regarding the term of the policy, risk in force, amount of risk in force reinsured and reinsurance premium. The effective date of the policy, as shown in the policy register, is not the actual effective date of the current policy. Instead, it is the very first effective date for the insured with the company. It is again recommended that the company maintain a proper policy register in compliance with s. Ins 13.05 (3) (a), Wis. Adm. Code.

The company keeps one journal for disbursement and receipt of cash. The journal is inconsistent in the way it lists the payer for the company's receipts. For assessment #135, the cash receipts journal did not list the individual policyholder payments. Instead, it just showed the lump sum for the deposit. Also, there is no reference made to the general ledger account and amount affected. It is again recommended that the company maintain a proper cash receipts journal and cash disbursements journal as specified in s. Ins 13.05 (3) (a), Wis. Adm. Code.

The company's certified public accountant prepares the company's general journal and general ledger. They are prepared on a quarterly basis. These reports meet the requirements of s. Ins 13.05 (3) Wis. Adm. Code.

The company does not keep a record of the date that a check is received at the company's office. This precludes the determination of the timely deposit of cash receipts under s. Ins 13.05 (4) (a), Wis. Adm. Code. It is again recommended that the company improve its internal control procedures by requiring timely recording of receipts in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records to the recording of receipt and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 1998.

The company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. The company has one computer that they only use to run a reinsurance program purchased from Wisconsin Reinsurance Corporation. Access to the computer is not limited to people authorized to use the computer. Although the computer is not used on a daily basis, it should still have some device that prevents unauthorized individuals from using it such as a screen-saver with a password requirement. It is recommended that the company establish procedures to limit access to its computer.

Company personnel back up the computers weekly and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has a manual documenting the use of Wisconsin Reinsurance Corporation software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has not developed a disaster recovery plan. It is recommended that the company develop a disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employes of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$335,569
2.	Liabilities plus 33% of gross premiums written	67,384
3.	Liabilities plus 50% of net premiums written	69,824
4.	Amount required (greater of 1, 2, or 3)	335,569
5.	Amount of Type 1 investments as of 12/31/98	788,058
6.	Excess or (deficiency)	$452,489

The company has sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company does not have any investments that are not in compliance with the new investment rule.

The company does not have a written investment plan. The board of directors have verbally agreed that its policy is and always has been to invest in certificates of deposits in FDIC accredited banks and in Wisconsin Reinsurance Corporation stock. However, s. 6.20 (6) (h, Wis. Adm. Code, requires that the board of directors of a town mutual adopt a written plan for acquiring and holding investments and for engaging in investment practices. It is recommended that the company adopt a written investment plan in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$825,602**

The above asset is comprised of the following types of cash items:

Cash in Bank - Checking	$ (6,083)
Cash in Bank – Money Market	76,695
Cash in Bank – C.D.'s	754,990
Total	$825,602

Cash deposited in banks subject to the company's check and withdrawal consists of two accounts maintained in two separate banks. Verification of checking account balances was made by obtaining confirmations directly from the depositories and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of thirteen deposits in nine depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 1998 totaled $44,547. Rates of interest earned on cash deposits ranged from 2.05% to 6.0%. Accrued interest on cash deposits totaled $5,629 at year-end.

Stocks and Mutual Fund Investments **$110,577**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 1998. Stocks owned by the company are located in a safe deposit box at the Bank of Mauston.

Stock certificates were physically examined by the examiners. There were no stock or mutual fund purchases and sales for the period under examination. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

The company did not receive any dividends during 1998 from stocks and mutual funds. Accrued dividends of $5,200 at December 31, 1998, were recalculated and allowed as a nonledger asset.

Investment Income Due and Accrued **$13,867**

Interest due and accrued on the various assets of the company at December 31, 1998, consists of the following:

Interest Accrued on Various Certificates of Deposit	$ 8,667
Dividend Declared by Wisconsin Reinsurance on Preferred Stock	5,200
	$13,867

Assessments Receivable **$6,567**

This asset represents assessments due the company on insurance provided in 1998, less amounts 90 days past due. This amount was verified as of December 31, 1998. The company is in partial compliance with s. 612.54 (5), Wis. Stat., regarding policyholders with assessments past due paying a penalty of 2% of the assessment for each week or part thereof during which the assessment remains unpaid, until the accumulated penalty equals 100% of the assessment. It is important that the company continue to enforce the collection of this penalty on the unpaid accounts as of December 31, 1998. As of January 1, 1999, the company is switching from the assessment basis to the advance premium basis. As a result of this change, this recommendation is not relevant, on an ongoing basis, and will not be repeated.

Reinsurance Recoverable on Paid Losses **$1,197**

The above asset represents recoveries due to the company from reinsurance on losses that were paid on or prior to December 31, 1998. The company has not submitted these paid losses, to their reinsurer, for reimbursement since January of 1997. It is recommended that the company promptly submit reinsurance recoverable on paid losses to their reinsurer.

Reinsurance Premium Recoverable **$1,392**

The above asset represents amounts due from Wisconsin Reinsurance Corporation due to overpayments being made for the company's annual deposit for Class A, Class C, and Class D/E coverage. Annual deposits, made by the company, were higher than the annual premium owed based on net premium written.

Refundable Unearned Premium – WI Reinsurance **$4,749**

The above asset represents an amount recoverable from Wisconsin Reinsurance Corporation under the Class B First Surplus Reinsurance contract. Ordinarily, unearned premium reserves held by the reinsurer would be netted against the company's unearned premium reserve; however, the company does not establish an unearned premium reserve because it is on the assessment basis, so this would result in a negative liability. Therefore the company has historically established an asset for the unearned premium reserve held by the reinsurer. Examiners have accepted the company's accounting practice for this examination, primarily because during 1999 the company is changing to the advance basis of premium. The company should record the reinsurer's unearned premium reserve as an offset to its unearned premium reserve at year-end 1999 and in the future. This balance was verified as of December 31, 1998.

Software **$2,681**

This asset consists of reinsurance software purchased from Wisconsin Reinsurance Corporation. To be an admitted asset, the software must be operating system software. This Wisconsin Reinsurance Corporation software is not operating system software; therefore, it should not be included as an admitted asset on the annual statement. A recommendation on this issue is made in the following section.

The difference between the examination software balance and the reported software balance at year-end was not material in relation to the financial position of the company. Therefore, this difference is not used to adjust policyholders' surplus.

Equipment, Furniture, and Supplies **$613**

This asset consists of $613 of furniture and equipment owned by the company at December 31, 1998. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted. This account consists of two depreciable items. They are: a fireproof safe, with a depreciated value of $28, and a computer printer, with a depreciated value of $586. The computer printer is misclassified in this category. It should be considered part of Electronic Data Processing Equipment, an admitted asset. The difference between the examination balance for equipment, furniture, and supplies and the reported balance for equipment, furniture, and supplies was not material in relation to the financial position of the company. Therefore, this difference is not used to adjust policyholders' surplus. However, it is recommended that the company properly classify and account for software and electronic data processing equipment on the annual statement.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$8,131**

This liability represents losses incurred on or prior to December 31, 1998, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$12,750	$12,750	$0
Less:			
Reinsurance Recoverable on Unpaid Losses	4,619	4,619	0
Net Unpaid Losses	$ 8,131	$ 8,131	$0

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 1998. To the actual paid loss figures was added an estimated amount for those 1998 and prior losses remaining unpaid at the examination date, if any.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proof of loss. However, the company's loss claim procedures are not in compliance with s. Ins 13.05 (4) (e), Wis. Adm. Code. When a claim is reported, the company does not assign a claim number to the claim. It is recommended that the company follow the loss claim procedures as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is not maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were not properly signed.

In the previous examination, it was recommended that the company complete its loss register to comply with s. Ins 13.05, Wis. Adm. Code. Additionally, the previous examination recommended that the company require its claimants to sign proofs of loss when making claims. It was determined that the company did not comply with the previous recommendations. An entry in the loss register as well as obtaining a signed proof of loss is only executed when a claim results in payment. It is again recommended that the company maintain a proper loss register as specified in s. Ins 13.05, Wis. Adm. Code, noting that all claims, open, closed, and closed without payment, be properly recorded. It is again recommended that the company require its claimants to sign a proof of loss when submitting all claims.

Adequate documentation is not maintained on claims closed without payment, or still outstanding. Per s. 13.05 (4) (e), Wis. Adm. Code, all claims shall be adequately documented so that amounts for settlement and coverage can be verified. The claim file shall contain the reason for denial if the claim is denied. The company does not prepare any documentation on claims closed without payment or still outstanding. When an outstanding claim is closed without payment, a claim file is not prepared for the reported loss. In addition, until a payment is made on an outstanding claim, a claim file is not prepared. Therefore, it is recommended that the company comply with s. 13.05 (4) (e), Wis. Adm. Code regarding the proper preparation of claim files.

Unpaid Loss Adjustment Expenses $1,000

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 1998, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate made by management as of year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Payroll Taxes Payable $155

This liability represents the company's portion of payroll taxes incurred prior to December 31, 1998, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$1,816**

This liability represents rent payable of $1,800 and fire dues of $16. The rent payable represents six months of outstanding rent, at $300 per month, owed to Hawkins Realty. Currently, only a verbal agreement exists between the company and Hawkins Realty. It is recommended that the company enter into a formal written rental agreement with Hawkins Realty. At year-end, the company owed fire dues of $16 to the state of Wisconsin. Supporting records and subsequent cash disbursements verified this item.

Accrued Salaries **$24,467**

This liability represents $24,467 of accrued salaries owed to the company's salaried employes. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

There were no adjustments to surplus as a result of this examination. The company reported admitted assets of $966,732, liabilities of $35,569, and policyholders' surplus of $931,063. Surplus has increased steadily, 22% in total, since the prior examination as of year-end 1993. Surplus is at its highest level in company history. Policies in force have decreased slightly while net premiums written were relatively stable since the prior examination. The company has used investment income to offset underwriting losses that have occurred in three of the last five years.

Five of the previous examination recommendations have been repeated in this report concerning adequacy of accounts and records, and an appropriate loss register. A majority of the new recommendations involve administrative issues.

In summary, many improvements still need to be made in the company's recordkeeping systems.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Corporate Records — The company should give consideration to developing a comprehensive business plan to help provide assistance as to how it will achieve its goals.

2. Page 16 - Corporate Records — It is recommended that the company execute formal written agreements with its agents.

3. Page 17 - Underwriting — It is suggested that the company adopt procedures for obtaining pictures of all properties inspected.

4. Page 17 - Financial Reporting — It is recommended that the company list all agents who write nonproperty (liability) business with the Commissioner of Insurance, per s. Ins 6.57, Wis. Adm. Code.

5. Page 18 - Accounts and Records — It is again recommended that the company maintain a proper policy register in compliance with s. Ins 13.05 (3) (a), Wis. Adm. Code.

6. Page 19 - Accounts and Records — It is again recommended that the company maintain a proper cash receipts journal and cash disbursements journal as specified in s. Ins 13.05 (3) (a), Wis. Adm. Code.

7. Page 19 - Accounts and Records — It is again recommended that the company improve its internal control procedures by requiring timely recording of receipts in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

8. Page 19 - EDP Equipment — It is recommended that the company establish procedures to limit access to its computer.

9. Page 20 - Disaster and Recovery Plan — It is recommended that the company develop a disaster recovery plan.

10. Page 21 - Invested assets — It is recommended that the company adopt a written investment plan in compliance with s. ins. 6.20 (6) (h) Wis. Adm. Code.

11. Page 23 - Reinsurance Recoverable on Paid Losses — It is recommended that the company promptly submit reinsurance recoverable on paid losses to their reinsurer.

12. Page 25 - Equipment, Furniture, and Supplies — It is recommended that the company properly classify and account for software and electronic data processing equipment on the annual statement.

13. Page 26 - Net Unpaid Losses — It is recommended that the company follow the loss claim procedures as specified in s. Ins 13.05 (4) (e), Wis. Adm. Code.

14. Page 27 - Net Unpaid Losses — It is again recommended that the company maintain a proper loss register as specified in s. Ins 13.05, Wis. Adm. Code, noting that all claims, open, closed, and closed without payment, be properly recorded.

15. Page 27 - Net Unpaid Losses — It is recommended that the company comply with s. Ins 13.05 (4) (e), Wis. Adm. Code, regarding the proper preparation of claim files.

16. Page 27 - Net Unpaid Losses — It is again recommended that the company require its claimants to sign a proof of loss when submitting all claims.

17 Page 28 - Accounts Payable — It is recommended that the company enter into a formal written rental agreement with Hawkins Realty.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Danielle Rogacki of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Respectfully submitted,

Glenn Aumann
Examiner-in-Charge

Lindina Town Mutual report.doc